

STATE OF LOUISIANA LEGISLATIVE AUDITOR

City of Tallulah
Tallulah, Louisiana

October 16, 2002



Investigative Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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City of Tallulah

October 16, 2002



**Investigative Audit
Office of the Legislative Auditor
State of Louisiana**

**Daniel G. Kyle, Ph.D., CPA, CFE
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LEGISLATIVE AUDITOR

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October 16, 2002

THE HONORABLE THEODORE LINDSEY, MAYOR,
AND MEMBERS OF THE BOARD OF ALDERMEN
Tallulah, Louisiana

Transmitted herewith is our investigative report of the City of Tallulah. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our finding and recommendations, as well as your response. Copies of this report have been delivered to the Honorable James D. "Buddy" Caldwell, District Attorney for the Sixth Judicial District of Louisiana; the United States Attorney for the Western District of Louisiana; and other authorities as required by state law.

Respectfully submitted,

A handwritten signature in cursive script, reading "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

MJL:SLC:DGP:dl

Executive Summary

Investigative Audit Report City of Tallulah

Highlights. . .

From July 1998 through March 2002, the City paid Mr. Curtis Brown \$178,350 for various labor jobs.

The City failed to prepare and issue an IRS Form 1099 to Mr. Brown for 1998 through 2000 and the 1099 issued to Mr. Brown for 2001 was understated by \$11,900.

Management for the City should require contractors to provide detailed documentation; ensure supporting documentation is received and maintained for all payments; and prepare all appropriate federal and state tax forms in accordance with IRS and Louisiana Department of Revenue guidelines.

Finding (See page 5.)

During the period July 1998 through March 2002, the City of Tallulah (City) paid Mr. Curtis Brown \$178,350 (127 payments) for various labor jobs including removal of trees and debris from streets. The invoices accepted by the City from Mr. Brown often contained vague specifications as to the date, location, or service provided. Invoices and supporting documentation were missing from the City's files for 20 of the payments to Mr. Brown totaling \$15,650. As a result, the City is unable to demonstrate that it received adequate services for the compensation paid to Mr. Brown. In addition, the City failed to prepare and issue an Internal Revenue Service (IRS) Form 1099 to Mr. Brown for 1998 through 2000 and the Form 1099 issued to Mr. Brown for 2001 was understated by \$11,900. Mr. Brown stated that he did not file a state or federal income tax return for any of these years.

Recommendations (See page 7.)

We recommend that management for the City of Tallulah require contractors and vendors to provide detailed documentation as to date, type, and location of all services provided. Management should also ensure that adequate supporting documentation is received and maintained for all payments issued by the City and that all appropriate federal and state tax forms are prepared and issued in accordance with IRS and Louisiana Department of Revenue guidelines.

Management's Response (*See Attachment I.*)

Management for the City believes Mr. Brown's invoices were properly dated and contained adequate descriptions of work performed. However, the City will require more invoice detail from all vendors in future billings. Before payment is made to a vendor, the City requires an invoice to be submitted and determines that services have been completed. The City is also attempting to improve upon the issuance of 1099s. Finally, management for the City believes that although significant amounts of money have been spent on its cleanup campaign, the appearance of Tallulah is much improved.

Background and Methodology

The City of Tallulah, a Lawrason Act municipality, has five aldermen and a mayor who serve as the governing authority for the residents of Tallulah. The legislative auditor received information relating to the City's payments to an individual contractor. This information indicated that the contractor may have been paid excessively. This investigative audit was conducted to determine the propriety of these transactions.

The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of the City; (2) interviewing other persons as appropriate; (3) examining selected documents and records of the City; (4) making inquiries and performing tests to the extent we considered necessary to achieve our purpose; and (5) reviewing applicable state and federal laws and regulations.

The result of our investigative audit is the finding and recommendations herein.

Finding

During the period July 1998 through March 2002, the City of Tallulah (City) paid Mr. Curtis Brown \$178,350 (127 payments) for various labor jobs including removal of trees and debris from streets. The invoices accepted by the City from Mr. Brown often contained vague specifications as to the date, location, or service provided. Invoices and supporting documentation were missing from the City's files for 20 of the payments to Mr. Brown totaling \$15,650. As a result, the City is unable to demonstrate that it received adequate services for the compensation paid to Mr. Brown. In addition, the City failed to prepare and issue an Internal Revenue Service (IRS) Form 1099 to Mr. Brown for 1998 through 2000 and the Form 1099 issued to Mr. Brown for 2001 was understated by \$11,900. Mr. Brown stated that he did not file a state or federal income tax return for any of these years.

The invoices accepted by the City from Mr. Brown often contained vague specifications and did not always identify the date, location, or specific services provided by Mr. Brown. Mr. Brown's invoices were either handwritten or computer-generated. Mr. Brown stated that a friend of his prepared the handwritten invoices and either the mayor's secretary, Ms. Edna Wilson, or the City clerk, Mr. Gerald Odom, prepared the computer-generated invoices. Twenty of the payments did not contain any invoices or supporting documents to identify the purpose of the payments. As a result of the vague specifications and the missing invoices, the City is unable to demonstrate that it received adequate services, if any, from Mr. Brown.

Mr. C. J. Oney, City supervisor, stated that he oversees most of the work performed by Mr. Brown and negotiates the price of large cleanup jobs with Mr. Brown. Mr. Oney stated that he is confident that Mr. Brown performed all of the work for which Mr. Brown was paid. Mr. Oney further stated that the City does not use City employees for the services provided by Mr. Brown because the City cannot afford the landfill disposal costs. According to Mr. Oney, Mr. Brown is able to do things with the trash that the City is not allowed to do.

The City paid Mr. Brown \$178,350 during the period July 1998 through March 2002. The City failed to issue Mr. Brown a Form 1099 for 1998 through 2000 and the Form 1099 for 2001 was understated by \$11,900. Mr. Brown stated that he did not file a tax return nor did he pay state and federal taxes during these years.

<u>Payments to Mr. Brown</u>	
1998	\$11,800
1999	47,000
2000	62,100
2001	45,450
2002	<u>12,000</u>
Total	<u>\$178,350</u>

IRS guidelines require the City to file Form 1099 (Miscellaneous Income) for all unincorporated vendors who are not treated as employees and earn greater than \$600 in a calendar year. The payments to Mr. Brown each year were significant enough to require the City to prepare and file a Form 1099 for Mr. Brown.

Examples of Mr. Brown's Invoices

<p style="text-align: center;">CURTIS BROWN 1007 N. Walnut St. Tallulah, LA 71282</p> <p style="text-align: center;">INVOICE</p> <p style="text-align: right;">DATE: <u>3/2/01</u></p> <p>*****</p> <p>To: City of Tallulah 204 N. Cedar Street Tallulah, Louisiana 71282</p> <p>WORK PERFORMED:</p> <table border="1"> <tr> <td>Removal of two extremely large piles of trash, debris, etc.</td> <td></td> </tr> <tr> <td>Two payments of \$1,250.00</td> <td>\$2,500.00</td> </tr> </table> <p>Total Amount Due: <u>\$2,500.00</u></p> <p>*****</p> <p>CONTRACTOR: _____</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Mr. Brown billed the City \$2,500 for "Removal of two extremely large piles of trash, debris, etc." No location is noted for these services.</p> </div>	Removal of two extremely large piles of trash, debris, etc.		Two payments of \$1,250.00	\$2,500.00	<p style="text-align: center;">CURTIS BROWN 1007 N. Walnut Street Tallulah, Louisiana 71282</p> <p style="text-align: center;">INVOICE</p> <p style="text-align: right;">November 21, 2001</p> <p>*****</p> <p>To: City of Tallulah 204 N. Cedar Street Tallulah, LA 71282</p> <p>RE: For work done:</p> <p>Saturday, November 17, 2001 Jerry & Madison St. Sunday, November 18, 2001 Cornelius & Ethel St. Monday, November 19, 2001 University & Wyche St. Tuesday, November 20, 2001 W. Darrow & W. Oughbourne Wednesday, November 21, 2001 Third & Fourth St.</p> <p>Labor: \$330.00 a day @ 5 days</p> <p>TOTAL COST: \$1,650.00</p> <p style="text-align: center;"><i>Curtis Brown</i> CURTIS BROWN</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>This invoice does not describe what work was performed or the exact locations.</p> </div>
Removal of two extremely large piles of trash, debris, etc.					
Two payments of \$1,250.00	\$2,500.00				

03/15/14

Street Department
3-12-02 thru 3-15-16
Repairing streets & Cleaning out
Culverts
Labor, Gas, time: \$650.00

Curtis Brown

This invoice does not indicate where the work was performed.

Recommendations

We recommend that management for the City of Tallulah require contractors and vendors to provide detailed documentation as to date, type, and location of all services provided. Management should also ensure that adequate supporting documentation is received and maintained for all payments issued by the City. Management should also ensure that all appropriate federal and state tax forms are prepared and issued in accordance with IRS and Louisiana Department of Revenue guidelines. We further recommend that the Louisiana Department of Revenue and the IRS review this information and take appropriate action.

Attachment I

Management's Response

Theodore Lindsey
Mayor

Gerald L. Odom
City Clerk



City of Tallulah

204 North Cedar St.
Tallulah, Louisiana 71282
Phone (318) 574-0964
Fax (318) 574-2773

Earl J. Pinkney
Chief of Police

October 7, 2002

Dr. Dan Kyle
Legislative Auditor
State of Louisiana

Fax: (225) 339-3987

Dear Dr. Kyle:

As mayor of the City of Tallulah, I would like to respond to your recent audit of financial transactions between the City of Tallulah and Curtis Brown.

In viewing Mr. Brown's invoices, I found them all to be properly dated with adequate descriptions of work performed. Work descriptions were about as detailed as those of any other invoices my office receives for work or services performed including those of professional accounting firms as City Clerk, Gerald Odom, recently demonstrated to legislative auditor, Ernie Levy. However, we are willing to require more invoice detail from all of our vendors in future billings.

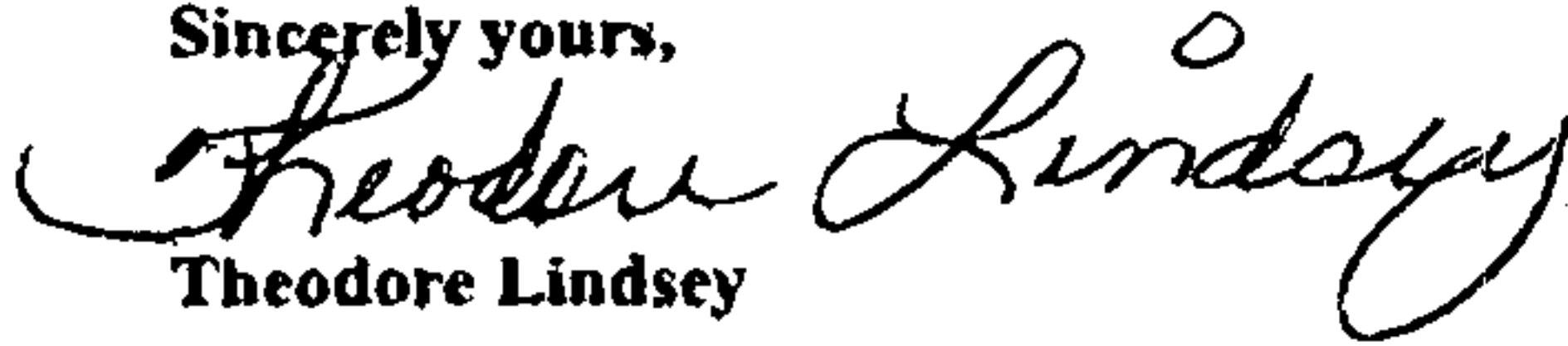
It should also be noted that we never pay anyone without being presented with an invoice along with determination that the services, as is the case here, have been completed to our satisfaction. Therefore, any missing invoices resulted from the inability to locate them in outside storage areas after being removed from current files. Perhaps a more thorough search by my staff would have avoided this problem.

We are striving to improve our performance regarding the yearly issuance of 1099's to all unincorporated vendors doing business with us. Our first priority each February is to our employees with the issuance of W-2's. After that, as time allows, we give attention to 1099's through the remainder of the month.

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We realize that the amount of money spent on our clean-up campaign over the past three years has been significant, but the tax payers demanded it, and we have a much better appearance as a town for it.

Sincerely yours,


Theodore Lindsey

pm